ALBERTA OPPORTUNITY COMPANY

1998/99 Annual Report

An alternate source of business financing since 1972.

100-03967/

ALBERTA OPPORTUNITY COMPANY

Turning Opportunity into Enterprise

The purpose of Alberta Opportunity Company is to provide financial assistance and guidance for the development of Alberta business.

Priority is given to smaller businesses in rural communities which, although viable, are not able to obtain financing from conventional institutions. Priority is also given to Alberta-owned businesses which will create jobs, are introducing improvements in productivity or technology, or have export or tourism potential.

Table of Contents

1998/99 Annual Report

Report from the Directors 2

Report of the Auditor General on the Results of Applying Specified Audit Procedures to Performance Indicators 3

Management Discussion and Analysis 4

Management's Responsibility for Financial Information 6

Financial Statements

- Auditor's Report 7
- Balance Sheet 8
- Statement of Income, Expense and Retained Earnings 9
- Statement of Changes in Financial Position 10
- Notes to the Financial Statements 11

Authorizations for Fiscal Year 1999 19

Loans and Guarantees 20

Board of Directors 21

Executive Officers 21

Branch Offices 22

Report from the Directors

A Tribute to Alberta's Entrepreneurs

We are pleased to submit the Annual Report of Alberta Opportunity Company (AOC) for the final year of this century.

As the Twentieth Century draws to a close, we should all take some time to reflect on how far we have come, and how far we have yet to go. A hundred years ago, there was no Alberta Opportunity Company, nor was there even an Alberta. In the span of just three generations, Alberta has grown from a mere handful of people to now three million strong. This province owes much to the risk takers who settled here, and who, with vision and energy built the businesses and communities which today sustain us all. These people were true entrepreneurs, who recognized the tremendous potential of the resources and freedoms that are available here, and used that vision and energy to develop those resources to the fullest.

AOC has been supporting development of the small business community for the last quarter of this century. In that time, we have provided financing to over 8,500 Alberta businesses that were unable to find the financing they required through conventional sources. Our faith in these supposedly risky ventures has been rewarded many times over through the continuing contribution that these businesses make to our economy. In addition to this broad economic benefit, over ninety percent of the funding we have provided to these businesses has been repaid with interest. In assessing the projects which come before us, we will continue to seek, and recognize, that balance between opportunity and risk which characterizes most successful business ventures.

This entrepreneurial spirit is still an integral part of the values and culture of Alberta, and we at AOC are proud to support these values as part of our mission to the people of Alberta. Today's entrepreneurs face ever-increasing challenges and barriers to starting or expanding their businesses. We are here because Alberta's entrepreneurs tell us they still need an alternative source of financing to supplement the financial services provided by the private sector. In so doing, we always allow those private sector financial institutions the first opportunity to provide the financing. Our loans are offered to entrepreneurs at above-market interest rates to ensure that their need is genuine, and that no unfair advantage is provided to them through the process of our financing.

AOC's Results for Fiscal Year 1999

From a financial perspective, the fiscal year ended March 31, 1999 was one of our most successful ever. With almost 300 authorizations for the year, our loan portfolio grew by 14% to $116 million. Loan write-offs were at an all time low of less then 1% of the portfolio balance. As a result of these achievements, we are pleased to report that AOC operated at no net cost to taxpayers in fiscal 1999. A full review of these operating results is provided in the Management Discussion and Analysis section of this Annual Report.

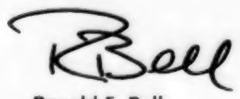
During the year, we also successfully implemented a Balanced Scorecard performance measurement system to better manage the progress of the company in all areas of its operations. We are proud to be among the first agencies of the Alberta government to successfully design and implement a Balanced Scorecard. This system is proving to be a very timely and instructive tool to help us meet both the needs of our borrowers, and those of all of our stakeholders. Ongoing refinement to our Balanced Scorecard in future years will contribute to ever-improving levels of service and effectiveness.

The lean organizational structure AOC adopted two years ago continues to prove its value and effectiveness. Supported by improvements to our fully integrated Enterprise Information System, we have continued to improve our efficiency and service quality while maintaining our staffing levels at or below those targeted at the time of the reorganization.

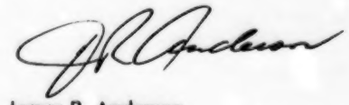
Recent Developments

Subsequent to the end of the fiscal year, the government announced a significant reorganization of many of its Ministries. AOC now reports to the Legislature through the Minister of Agriculture, Food and Rural Development. As part of this re-alignment there will be an in-depth review to examine the possibility of integrating the operations of AOC and Agriculture Financial Services Corporation (AFSC), a provincial Crown Corporation which provides financing and insurance services to Alberta's farming community. At the time of publication, the initial steps for this review have not yet been taken.

Again this year, the Directors want to acknowledge the fine job that all AOC staff do in extending our services to worthy entrepreneurs who have had difficulty finding the financing they need from conventional private sector sources. We do this by building our relationships with those private sector lenders such that most of our financings are now referred to us from those sources. Our goal is to continue to develop and promote partnerships with Alberta's business community and commercial financial institutions so that, together, we can help our borrowers build a stronger Alberta by *Turning Opportunity into Enterprise.*



Ronald E. Bell
Chair



James R. Anderson
President and CEO

AUDITOR GENERAL *Alberta*

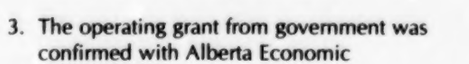
Report of the Auditor General on the Results of Applying Specified Audit Procedures to Performance Indicators

To the Board of Directors of Alberta Opportunity Company:

I have performed the following specified audit procedures in connection with Alberta Opportunity Company's Performance Indicators included in the 1998-99 Annual Report on page 4.

1. New loans/guarantees, export financing, and jobs created/preserved were agreed to the internal loan management system data.
2. The amount recorded in the loan management system was agreed to the original loan contract for a sample of 25 implemented loans and 10 export guarantees.
3. The operating grant from government was confirmed with Alberta Economic Development.
4. The net profit/(cost) to government was recalculated by subtracting the operating grant from government from the reported audited net income figure.
5. The calculations, which converted source information into reported measures, were tested.
6. The appropriateness of the description of each measure's methodology was assessed to ensure that it did not materially misrepresent the information presented.

As a result of applying the above procedures, I found no exceptions. However, these procedures do not constitute an audit of the set of key measures and therefore I express no opinion on the set of key measures included in the 1998-99 Annual Report of Alberta Opportunity Company.



FCA
Auditor General

Edmonton, Alberta
June 30, 1999

Management Discussion & Analysis

The detailed discussion and analysis in this section is provided to assist readers in their assessment and understanding of the results of operations and financial position of Alberta Opportunity Company (AOC). It also provides a review of AOC's risk management policies and an outlook for the future. This section should be read in conjunction with the audited Financial Statements and supporting notes reported on pages 7 to 18 of this report. Dollar amounts presented in the tables are in thousands.

Overview of 1999 Results

AOC has completed another successful year, achieving substantially all of its lending targets for the year. In 1999, we placed 286 loans, bank guarantees and export guarantees which totalled $39.3 million. This is a decline in activity from 1998 when we had 316 authorizations totalling $46.3 million. However, the results are considered positive in view of the fact that activity levels in 1998 were among the highest in the Company's 26 year history. This level of lending activity resulted in a 14 percent growth in the size of our loan portfolio. AOC reported a net income of $5.7 million for the year, notwithstanding a decrease in grant assistance of $1.3 million. This compares to 1998 net income of $4.7 million.

At AOC, we are focused on meeting the needs of our small business borrowers while minimizing the cost to government. Our achievements are measured against performance indicators established in our annual Business Plan. For the year, actual results compare to these targets as follows:

Performance Indicator	Actual	Goal
New loans/guarantees	$ 36.4 million	$ 39.3 million
Export Financing	$ 2.9 million	$ 3.5 million
Operating Grant from Government	$ 5.5 million	$ 5.4 million
Net Profit/(Cost) to Government	$ 0.2 million	($ 5.4) million
Jobs created/preserved	2,190	2,400

Our annual survey of AOC's current borrowers showed that they generate annual gross revenues exceeding $634 million, of which $99 million are exports out of the province of Alberta. This survey also found that over 5,900 people were employed representing an annual payroll of $130 million. Borrowers paid $7.9 million in corporate and local taxes, exclusive of any payroll, GST or other indirect taxes.

Results of Operations

Income

AOC's income, net of interest expense, decreased by 2.0 percent to $11.9 million in 1999. Income net of interest expense is detailed in the following table:

	1999	1998	%Change
Interest Revenue	$10,396	$ 8,829	17.8 %
Interest Expense	4,536	4,077	11.3 %
Net interest income	5,860	4,752	23.3 %
Application and processing fees	558	640	(12.8)%
Grant from Province of Alberta	5,521	6,787	(18.6)%
Income net of interest expense	$11,939	$12,179	(2.0)%

Interest revenue is earned from interest charged on outstanding loans and from cash deposited in the Province of Alberta's Consolidated Cash Investment Trust Fund. Interest expense includes interest paid to the Province of Alberta on debenture and note borrowings. In 1999 net interest income increased by $1.1 million due to the growth in the loan portfolio, and reduced borrowing requirements due to an increase in retained earnings position. The decrease in application and processing fees is due to fewer loans and applications being processed in the year. Grant from Province of Alberta is required to maintain the financial viability of AOC for providing assistance to small businesses. In 1999 the grant decreased by $1.3 million as planned for in our three-year business plan. Plans for 2000 are to maintain the grant at its present level.

Operating expenses

AOC's non-interest operating expenses decreased by 16.8 percent to $6.2 million in 1999. Total non-interest operating expenses are shown by expense category in the following table:

	1999	1998	%Change
Operations	$ 5,509	$ 5,336	3.2 %
Charge for loan losses and losses on realization	717	2,152	(66.6)%
Total non-interest operating expenses	$ 6,226	$ 7,488	(16.8)%

The increase in operations expense of $0.2 million is primarily due to salary increases. Loan write-offs in 1999 were unusually low and were more than offset by recoveries of amounts previously written off. This resulted in a decrease in the charge for loan losses of $1.4 million. In 1999 a conservative approach for providing allowances on impaired loans was maintained. As a percentage of the total loan portfolio the allowance for loan losses was 8.4 percent in 1999 compared to 8.7 percent in 1998.

Financing activities

Notes payable as at March 31, 1999 totalled $86.4 million, an increase of $8.6 million from March 31, 1998. This increase is related to the increase in the loan portfolio. During the year all Alberta Heritage Savings Trust Fund debentures were repaid. Current financing needs are met by borrowing from the General Revenue Fund at current market rates. As at March 31, 1999 the weighted average interest rate on notes payable was 5.3 percent compared to 5.7 percent at March 31, 1998. The weighted average interest rate on loans receivable was 9.1 percent as at March 31, 1999 and 9.3 percent as at March 31, 1998.

Risk Management

AOC's framework of risk management includes processes for the evaluation and acceptance of risk within appropriate limits in the areas of credit risk, interest rate risk and operational risk.

Credit risk is the risk that AOC will incur a loss due to the failure of a borrower to meet its loan obligations. The risk range in which AOC operates tends to be higher than that of the banking sector or other conventional financing institutions. This is because the mandate of AOC is to provide loans to Alberta businesses that have viable business proposals, when such support is not available from conventional lenders. Standards that are applied in the management of credit risk include:

- clear communication to credit officers of lending policies, security requirements and operating procedures;
- competency requirements for all officers whose responsibilities include evaluation of credit risk, and delegation of decision-making authority consistent with demonstrated ability;
- disciplined decision-making with loan proposals evaluated by a minimum of two officers. In the case of all large loans, approval from a committee of senior management or the Board of Directors is required;
- prompt recognition, regular monitoring and timely valuation of problem accounts.

Interest rate risk refers to the sensitivity of net interest income to changes in interest rates. This risk is managed by borrowing a mix of short-term and long-term debt through the Province of Alberta at fixed interest rates and terms designed to balance the average terms of AOC's loan portfolio while maintaining an appropriate interest spread.

Operational risk is the potential for loss as a result of a breakdown in information or transaction processing or legal compliance systems due to procedural or systems failures, errors, natural disasters or fraudulent activity. Operational risk is managed by a system of internal controls that requires segregation of duties, clearly established authorities, documentation of policies, procedures and code of conduct, accounting and record-keeping systems, financial and managerial reporting, back-up procedures and insurance coverage.

Future Outlook

Alberta's economy is forecast to show modest growth in 2000 and we anticipate demand for small business financing to be stable. No major operational changes are anticipated for AOC in 2000, however, further improvements in technology will be completed. The full implementation of a comprehensive loan and management information system will result in improved productivity, accountability and decision-making.

Efforts over the past few years to re-engineer our processes while maintaining quality service to our borrowers have produced positive benefits for both our clients and our stakeholders. We are proud of our 26 years of service to Albertans and we are ready to head into the next millenium... well positioned to enable promising entrepreneurs to turn opportunity into enterprise.

Management's Responsibility for Financial Information

The accompanying financial statements of Alberta Opportunity Company and all information in this annual report are the responsibility of the Company's management and have been reviewed and approved by the Board of Directors. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include some amounts that are based on informed judgments and best estimates of management. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Board of Directors is responsible for ensuring management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility through the Budget and Audit Committee of the Board, which is composed of Directors who are not employees of the Company. The Budget and Audit Committee meets regularly with management and the independent auditors to discuss auditing and financial matters, gain assurance that management is carrying out its responsibilities and to review the financial statements. The auditors have full and free access to the Budget and Audit Committee.

The Auditor General of Alberta, the Company's independent auditor, is responsible for auditing the transactions and financial statements of the Company and for issuing an opinion thereon.

James R. Anderson
President and CEO

Mag R. Greipl
Chief Financial Officer

Auditor's Report

AUDITOR GENERAL *Alberta*

To the Board of Directors of Alberta Opportunity Company

I have audited the balance sheet of Alberta Opportunity Company as at March 31, 1999 and the statements of income, expense and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine
FCA
Auditor General

Edmonton, Alberta
April 30, 1999

Balance Sheet

March 31, 1999 (in thousands)

	1999	1998
ASSETS		
Cash	$ 6,078	$ 5,300
Deferred charges and accounts receivable	800	869
Property held for sale (Note 3)	40	154
Loans receivable (Note 4)	106,802	93,755
Capital assets (Note 6)	1,071	823
	$ 114,791	$ 100,901
LIABILITIES AND RETAINED EARNINGS		
Accounts payable and accrued expenses	$ 1,600	$ 1,873
Notes payable (Note 7)	86,380	77,760
Pension obligations (Note 8)	338	508
	88,318	80,141
Retained earnings	26,473	20,760
	$ 114,791	$ 100,901

Approved on behalf of the Board of Directors:

Ronald E. Bell
Chair

James R. Anderson
President and CEO

The accompanying notes are part of these financial statements.

Statement of Income, Expense and Retained Earnings

for the year ended March 31, 1999 (in thousands)

	1999		1998
	Budget (Note 15)	Actual	Actual
NET INTEREST INCOME			
Interest income	$ 7,952	$ 10,396	$ 8,829
Interest expense	4,433	4,536	4,077
	3,519	5,860	4,752
OTHER INCOME			
Application and processing fees	488	558	640
Grant from the Province of Alberta for the assistance of small business	5,407	5,521	6,787
	5,895	6,079	7,427
NON-INTEREST EXPENSE			
Operations (Note 10)	6,042	5,509	5,336
Charge for loan losses and losses on realization (Note 3 and 5)	3,372	717	2,152
	9,414	6,226	7,488
NET INCOME FOR THE YEAR	$ -	5,713	4,691
Retained earnings, beginning of year		20,760	16,069
RETAINED EARNINGS, END OF YEAR		$ 26,473	$ 20,760

Statement of Changes in Financial Position

for the year ended March 31, 1999 (in thousands)

	1999		1998
	Budget (Note 15)	Actual	Actual
Cash provided by (used for):			
OPERATING ACTIVITIES			
Net income for the year	$ -	$ 5,713	$ 4,691
Recoveries of loans written off	400	647	464
Items not involving cash:			
Charge for loan losses and losses on realization	3,372	717	2,152
Loss (gain) on property held for sale	20	20	285
Amortization of capital assets	205	196	153
Amortization of deferred charges and note discounts	-	829	556
Pension liability decrease	-	(170)	(286)
Net change in other assets and liabilities	-	33	(227)
	3,997	7,985	7,788
INVESTING ACTIVITIES			
Loans disbursed	(35,000)	(37,462)	(43,998)
Proceeds from repayment of loans receivable	28,970	23,199	22,811
Acquisition of property	(600)	-	(1,755)
Proceeds from sale of property	500	81	1,548
Purchase of capital assets	(150)	(444)	(272)
Other	(325)	(400)	(221)
	(6,605)	(15,026)	(21,887)
FINANCING ACTIVITIES			
Proceeds of notes	25,000	35,602	63,342
Repayment of notes	(15,806)	(21,806)	(34,900)
Repayment of debentures	(5,977)	(5,977)	(12,765)
	3,217	7,819	15,677
Increase (decrease) in cash	$ 609	778	1,578
Cash at beginning of year		5,300	3,722
Cash at end of year		$ 6,078	$ 5,300

Notes to the Financial Statements

March 31, 1999 (tabular amounts in thousands of dollars)

1 Authority and purpose

Alberta Opportunity Company operates under the authority of the Alberta Opportunity Fund Act, Chapter A-34, Revised Statutes of Alberta 1980, as amended.

The purpose of the Company is to provide financial assistance and guidance for the development of Alberta business. Priority is given to smaller businesses in rural communities which, although viable, are unable to obtain financing from conventional institutions. Priority is also given to Alberta-owned businesses which will create jobs, are introducing improvements in productivity or technology, or have export or tourism potential.

The Province of Alberta maintains the financial viability of the Company by granting money appropriated for this purpose.

2 Significant accounting policies

Deferred charges

Deferred discounts and issue costs arising on the issue of notes payable are amortized on a straight-line basis over the term to maturity and charged to interest expense.

Property held for sale

Property held for sale is valued at the lower of cost and estimated net realizable value. Operating costs less rental revenues are added to the cost of the properties. Changes in the allowance for losses on realization are reflected in income.

Loans receivable

Interest revenue is accrued on loans until such time as a loan is classified as impaired. Interest income is not recognized on impaired loans until such time as the charges for loan impairment have been reversed.

The allowance for loan losses represents Management's best estimate of probable losses on loans outstanding. The allowance has a specific and a general component. The specific allowance is established following a detailed review on a loan-by-loan basis wherein the discounted future cash flows and the fair value of the security underlying the loan are determined. The general allowance is based on historical experience to cover losses that have not been specifically identified. Changes in the allowance for loan losses are reflected in income.

Capital assets

Capital assets are recorded at cost and amortized on a straight-line basis over the estimated useful lives of the assets as follows:

Furniture and office equipment	-	15%
Computer equipment and software	-	20%
Leasehold improvements	-	term of each lease

Pension costs

Pension costs comprise: the cost of pension benefits earned by employees during the year; interest on the Company's share of the unfunded pension liability; the amortization of deferred adjustments over the expected average remaining service life of employees which relate to the long term; adjustments to the pension obligation recognized immediately if there is reasonable assurance that a gain or loss has been realized; and the effect of the change in the ratio used to allocate the plan's total unfunded liability to participating entities. The net expense or recovery is included as part of salaries and benefits.

Operating grant

The grant from the Province of Alberta is recorded as revenue in the year for which it is approved.

3 Property held for sale

	1999	1998
Cost	$ 589	$ 699
Less allowance for losses on realization		
Allowance, beginning of year	545	653
Charge for losses on realization	48	66
Reversal on sale	(44)	(174)
Allowance, end of year	549	545
	$ 40	$ 154

4 Loans receivable

	1999	1998
Loans and accrued interest receivable	$ 108,168	$ 96,550
Impaired loans	8,386	6,087
	116,554	102,637
Less allowance for loan losses (Note 5)		
Specific allowance	3,265	3,233
General allowance	6,487	5,649
	9,752	8,882
	$ 106,802	$ 93,755

Loans have an average term of between four and five years and are secured by general security agreements, land mortgages, debentures and guarantees. Loans generate a weighted average interest return of 9.1% (9.3% in 1998).

5 Allowance for loan losses

	1999	1998
Allowance, beginning of year	$ 8,882	$ 7,155
Charge for loan losses	669	2,086
Write-offs	(446)	(823)
Recoveries of amounts previously written off	647	464
Allowance, end of year	$ 9,752	$ 8,882

6 Capital assets

	1999			1998
	Cost	Accumulated amortization	Net book value	Net book value
Equipment and software	$ 2,006	$ 967	$ 1,039	$ 781
Leasehold improvements	167	135	32	42
	$ 2,173	$ 1,102	$ 1,071	$ 823

Equipment and software includes approximately $262,000 in software at cost which is not being amortized due to being under development.

7 Notes payable

Notes are payable to the Province of Alberta.

Series	Maturity dates	Interest rates	1999	1998
Note 001	February 15, 2001	5.65%	$ 7,915	$ 11,720
Note 002	March 29, 2001	6.75%	8,000	8,000
Note 005	March 27, 2002	5.44%	13,250	13,250
Note 008	September 30, 2002	5.00%	12,240	12,240
Note 010	December 17, 1998	Discount note-5.28% yield	-	4,300
Note 012	March 2, 1999	Discount note-5.18% yield	-	3,300
Note 013	March 31 2003	5.00%	14,200	14,200
Note 014	September 30, 1998	Discount note-4.85% yield	-	5,200
Note 015	December 1, 2003	5.10%	10,000	-
Note 017	December 16, 1999	Discount note-4.80% yield	7,000	-
Note 018	March 27, 2000	Discount note-5.00% yield	8,400	-
Note 019	March 30, 2004	5.30%	6,000	-
Debenture E	March 31, 1999	7.71%	-	4,814
Debenture F	September 30, 1998	7.05%	-	1,163
			87,005	78,187
Less unamortized discounts			625	427
			$ 86,380	$ 77,760

Scheduled principal repayments are as follows:

2000	$ 18,799
2001	11,891
2002	13,250
2003	26,440
2004	16,000
	$ 86,380

	Term to Maturity[a]		1999	1998
	Within 1 year	1 to 5 years	Total	Total
Notes payable	$ 14,775	$ 71,605	$ 86,380	$ 77,760[b]
Yield[c]	4.75%	5.33%	5.30%	5.38%

(a) Term to maturity reflects the period of time until the maturity date of the notes.

(b) 1998 total includes debentures with a carrying value of approximately $5,977,000.

(c) Yield represents the rate which discounts the stream of future payments from the reporting date to the maturity date.

8 Pension obligations

The Company participates with other employers in the Public Service Pension Plan and the Management Employees Pension Plan. These plans provide pensions for the Company's employees based on years of service and earnings.

The Company had an unfunded pension liability for each plan as at March 31 which was estimated as follows:

	1999	1998
Management Employees Pension Plan	$ 283	$ 443
Public Service Pension Plan	55	65
	$ 338	$ 508

The total unfunded pension liability for each plan as at March 31, 1999 was determined by actuarial valuation as at December 31, 1998 for the Management Employees Pension Plan and as at December 31, 1997 for the Public Service Pension Plan both extrapolated to March 31, 1999. (The 1998 comparatives were determined using valuations extrapolated forward to March 31, 1998.)

The actuarial valuations were determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on each Pension Board's best estimate of future events. Each Plans' future experience will inevitably vary, perhaps significantly, from the assumptions. Any difference between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses which relate to the long term are amortized over the expected average remaining service life of the employee group. Gains and losses for which there is reasonable assurance regarding their measurement and realization are recognized in income immediately.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan that will be funded by employers. The Company's portion of those employers' liabilities was based on the Company's percentage of the total pensionable payroll of all employers in each Plan.

9 Disclosure of salaries and benefits

	1999			1998
	Salary[a]	Benefits[b]	Total	Total
Chairman of the Board	$ 6	$ -	$ 6	$ 7
President and CEO[c]	129	20	149	113
Regional Vice President, South[d]	88	35	123	114
Regional Vice President, North	97	19	116	108
Chief Financial Officer	79	19	98	88
Manager, Corporate Development[e]	76	14	90	89

(a) Salary includes regular base pay, bonuses, overtime and Board fees.

(b) Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, accidental disability and dismemberment insurance, short-term disability plan, professional memberships and vacation payouts.

(c) Automobile provided, no amount included for benefits.

(d) Position vacant for 1½ months.

(e) Position formerly Senior Manager, Support Services.

10 Operations

	1999	1998
Salaries and benefits	$ 3,646	$ 3,275
Communications	503	457
Occupancy	452	447
Legal and other fees	311	295
Amortization of capital assets	196	153
Board of Directors fees	53	45
Loss (gain) on property held for sale	20	285
Other	328	379
	$ 5,509	$ 5,336

11 Financial instruments

Fair values

Estimated fair value approximates amounts at which financial instruments could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. Many of the Company's financial instruments lack an available trading market, so fair values are based on estimates using present value techniques which are affected by assumptions concerning the timing of future cash flows and discount rates. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Company has determined the fair value of its financial instruments as follows:

(a) Cash, accounts receivable, accounts payable and accrued expenses

The carrying amount on the balance sheet approximates fair value because of the short-term nature of these instruments.

(b) Loans receivable

Fair value was not established for the loan portfolio due to there being no established market for the developmental loans made by the Company. With no available market information and the diverse nature of the loan portfolio it was not deemed practicable to determine the fair value with sufficient reliability.

(c) Notes payable

The estimated fair values of the Company's debt instruments are as follows:

	1999		1998	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Notes payable	$ 86,380	$ 86,470	$ 71,783	$ 72,119
Debentures payable	-	-	5,977	6,081
	$ 86,380	$ 86,470	$ 77,760	$ 78,200

Credit risk management

Credit risk arises from the potential for borrowers to default on their contractual loan obligations. Credit exposure on the Company's loan portfolio is managed through due diligence and account administration. To minimize the credit risk associated with the loans the Company requires security agreements and personal guarantees on all loans.

Interest rate risk management

The Company manages interest rate risk by borrowing a mix of short-term and long-term debt through the Province of Alberta at fixed interest rates and terms designed to match the average terms of the Company's loan portfolio.

Cash is deposited in the Province of Alberta's Consolidated Cash Investment Trust Fund which is managed with the objective of providing a competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years.

12 Contingent liabilities

Guarantees of bank loans

The Company is contingently liable as a guarantor of bank operating lines of credit as follows:

	1999	1998
Export guarantees	$ 2,096	$ 2,085
Guarantees	1,057	1,648
	$ 3,153	$ 3,733

Legal actions

There are claims against the Company totalling approximately $2,697,000. The Company considers that a valid defence exists in every instance and no material loss is anticipated.

General

In the event that the Company incurs a loss on the foregoing matters, the loss will be accounted for as a charge to income in the year that the loss is determined.

13 Commitments

Unimplemented authorizations

	1999	1998
Loans	$ 10,059	$ 12,502
Export guarantees	$ 410	$ 250
Guarantees	300	175
	$ 710	$ 425

Operating leases

The Company has obligations under long-term, non-cancellable operating leases for premises. These leases generally have five year terms, include five year renewal options, and provide for payment of operating expenses and real estate taxes in excess of the amounts established at the commencement of the leases. The future minimum lease payments and estimated related costs for each of the next five years are as follows:

2000	$ 421
2001	365
2002	331
2003	126
2004	15
	$ 1,258

14 Year 2000

The year 2000 issue is the result of some computer programs being written using two digits rather than four to define the applicable year. Computer programs that have date sensitive software may recognize a date using "00" as the year 1900, or some other date, rather than the year 2000, which could result in miscalculations or system failures. In addition, similiar problems may arise in some systems if certain dates in 1999 are not recognized as a valid date or are recognized to represent something other than a date. The effects of the year 2000 issue may be experienced before, on, or after January 1, 2000. If not addressed, the effect on operations and financial reporting may range from minor errors to significant systems failure that could affect the ability to conduct some Company operations. Despite the Company's efforts to address this issue, it is not possible to be certain that all aspects of the year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers and other third parties, will be fully resolved.

15 Budget

The 1999 budget was approved by Management on December 17, 1997 and is presented for comparison with the 1999 actual figures.

16 Comparative figures

Certain 1998 figures have been reclassified where necessary to conform to 1999 presentation.

Authorizations for Fiscal Year 1999

	Loans & Guarantees		Export Guarantees	
	#	$	#	$
Applications Received	473	73,054,400	10	2,915,000
Loans & Guarantees Authorized	312	41,386,500	10	2,915,000
Cancellations	36	5,033,500		
Net Authorizations Made	276	36,353,000	10	2,915,000
Average Amount		131,700		291,500
Median Amount		81,700		205,000
Net Authorizations by Size				
50,000 & under	108	2,963,200		
50,001 to 100,000	51	4,106,500	2	160,000
100,001 to 200,000	60	8,616,800	3	465,000
200,001 to 500,000	50	14,611,500	3	840,000
Over 500,000	7	6,055,000	2	1,450,000
Net Authorizations by Purpose				
Establish New Business	26	4,515,700		
Expand Existing Business	213	26,542,400	10	2,915,000
Purchase Existing Business	37	5,294,900		
Net Authorizations by Region				
Northern Alberta	90	12,092,600	2	490,000
Central Alberta	57	8,320,800	1	750,000
Southern Alberta	48	6,334,000		
Edmonton	29	2,607,200	6	1,525,000
Calgary	52	6,998,400	1	150,000

Loans and Guarantees

Authorizations to March 31

	1999		1998		1997		1996	
	#	$	#	$	#	$	#	$
Applications Received	483	75,969,400	555	87,185,400	572	79,307,100	730	77,772,500
Loans & Guarantees Authorized	322	44,301,500	368	51,902,200	354	45,171,600	399	37,196,700
Cancellations	36	5,033,500	52	5,579,000	49	6,995,000	59	7,113,200
Net Authorizations Made	286	39,268,000	316	46,323,200	305	38,176,600	340	30,083,500
Average Amount		137,300		146,600		125,200		88,500
Median Amount		83,500		78,800		61,600		39,700
Net Authorizations by Size								
50,000 & under	108	2,963,200	117	3,036,300	137	3,146,500	215	3,784,300
50,001 to 100,000	53	4,266,500	72	5,345,100	69	5,362,100	52	3,900,300
100,001 to 200,000	63	9,081,800	53	7,506,300	58	8,427,700	36	5,581,600
200,001 to 500,000	53	15,451,500	56	17,257,000	25	8,455,300	25	8,142,500
Over 500,000	9	7,505,000	18	13,178,500	16	12,785,000	12	8,674,800
Net Authorizations by Purpose								
Establish New Business	26	4,515,700	50	5,881,300	42	2,492,200	123	5,756,100
Expand Existing Business	223	29,457,400	221	30,683,700	226	30,949,900	170	18,184,400
Purchase Existing Business	37	5,294,900	45	9,758,200	37	4,734,500	47	6,143,000
Net Authorizations by Region								
Northern Alberta	92	12,582,600	84	13,724,300	79	8,728,900	60	7,139,100
Central Alberta	58	9,070,800	58	9,053,200	52	5,547,100	68	6,370,000
Southern Alberta	48	6,334,000	61	9,270,500	62	5,448,300	60	5,537,200
Edmonton	35	4,132,200	54	6,106,700	49	7,707,000	73	3,607,200
Calgary	53	7,148,400	59	8,168,500	63	10,745,300	79	7,430,000

Total Net Authorizations by Region (to March 31, 1999)

Northern Alberta	2,132	238,589,700
Central Alberta	1,677	180,697,800
Southern Alberta	1,828	180,301,400
Edmonton	1,317	127,817,900
Calgary	1,561	146,815,200

Board of Directors

Ronald E. Bell
Chair
Calgary

James R. Anderson
President and CEO
Ponoka

Thomas F. Bugg
Calgary

Robert F.J. Carswell
Calgary
Retired June, 1998

James K. Cumming
Edmonton

Paul J. Evaskevich
Grande Prairie

Lawrence R. Gordon, Q.C.
Medicine Hat
Appointed March, 1998

David L. Hardy, Q.C.
Red Deer

M. Barry Holmes, C.A.
Rocky Mountain House

Michael C. Procter
Peace River

Louise Severin
St. Paul
Appointed October, 1998

Wayne C. Wagner
Edmonton

Executive Officers

James R. Anderson
President and CEO

John D. Kennedy
Regional Vice President, North

John D. Ablett
Regional Vice President, South

Mag R. Greipl
Chief Financial Officer

Gerry C. McCracken
Manager, Corporate Development

Branch Offices

Brooks
Manager: Dan O'Connell
#5A, 403 - 2nd Avenue West
Brooks, Alberta T1R 0S3
ph: (403) 362-1270 / fax: (403) 362-1274
email: aocbrooks@aoc.gov.ab.ca

Calgary
Manager: Ron Fredrickson
#790, 10655 Southport Road SW
Calgary, Alberta T2W 4Y1
ph: (403) 297-6437 / fax: (403) 297-4136
email: aoccalgary@aoc.gov.ab.ca

Edmonton
Manager: Art Foulston
#1275 Weber Centre
5555 Calgary Trail South
Edmonton, Alberta T6H 5P9
ph: (780) 427-2140 / fax: (780) 422-9738
email: aocedmonton@aoc.gov.ab.ca

Edson
Manager: Ken Baker
4924 - 1st Avenue
P.O. Box 7110
Edson, Alberta T7E 1V4
ph: (780) 723-8233 / fax: (780) 723-8575
email: aocedson@aoc.gov.ab.ca

Grande Prairie
Manager: Allan Kuechle
#211, 10006 - 101 Avenue
Grande Prairie, Alberta T8V 0Y1
ph: (780) 538-5220 / fax: (780) 538-5531
email: aocgrandeprairie@aoc.gov.ab.ca

Lethbridge
Manager: Garry Noe
Suite 201, 714 - 5th Avenue South
Lethbridge, Alberta T1J 0V1
ph: (403) 381-5474 / fax: (403) 381-5567
email: aoclethbridge@aoc.gov.ab.ca

Medicine Hat
Manager: Bruce Martin
#204 Gaslight Plaza
579 - 3 Street SE
Medicine Hat, Alberta T1A 0H2
ph: (403) 529-3594 / fax: (403) 529-3112
email: aocmedicinehat@aoc.gov.ab.ca

Peace River
Manager: Mark Caveny
9809 - 98 Avenue, Bag 900-23
Peace River, Alberta T8S 1J5
ph: (780) 624-6387 / fax: (780) 624-6493
email: aocpeaceriver@aoc.gov.ab.ca

Ponoka
Manager: Ken Huston
5110 - 49 Avenue
P.O. Box 4040
Ponoka, Alberta T4J 1R5
ph: (403) 783-7011 / Fax: (403) 783-7079
email: aocponoka@aoc.gov.ab.ca

Red Deer
Manager: Ernie Shmyr
Suite 401, 4901 - 48 Street
Red Deer, Alberta T4N 6M4
ph: (403) 340-5551 / fax: (403) 340-5214
email: aocreddeer@aoc.gov.ab.ca

St. Paul
Manager: Roger Lindstrand
Suite 200, 4341 - 50 Avenue
St. Paul, Alberta T0A 3A3
ph: (780) 645-6356 / fax: (780) 645-6207
email: aocstpaul@aoc.gov.ab.ca

HEAD OFFICE - PONOKA
5110 - 49 Avenue
P.O. Box 4040
Ponoka, Alberta T4J 1R5
web: http://www.aoc.gov.ab.ca